

The causes, nature and effect of the current crisis of Lebanese capitalism

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Abstract

Forty years ago, Nasr identified a “crisis of Lebanese capitalism” as a “backdrop” to the country’s civil war. Thirty years after Ta’if, Lebanese capitalism is facing another crisis: public debt, looming currency crisis, failing public services. Explanations that focus solely on the sectarian “weak state” or on Syrian refugees neglect the crucial importance of Lebanon’s dependence on Gulf rentierism. Using recent studies of income and poverty, I show how post-war capitalism benefited rentier capitalists at the top, created a precarious middle class, and perpetuated poverty. Economic protests mobilize the precarious middle and they revolve around failing public services.

Forty years ago Salim Nasr identified a “crisis of Lebanese capitalism” as a “backdrop” to the country’s civil war (1975-1990).¹ Thirty years after the Ta’if agreement helped end the fighting, Lebanese capitalism is now facing another severe crisis. The symptoms of the crisis are skyrocketing public debt and looming currency crisis, over-reliance on real estate and finance, persistently high poverty rates and failures in public services, health, education, and social welfare. The causes of the crisis predate the arrival of Syrian refugees after 2011 who have nonetheless become convenient scapegoats and a means of extracting aid from the international community. Looking beyond these symptoms of the crisis, this article offers an analysis of Lebanon’s political economy: What is the cause, the nature, and the effect of the current crisis?

Most commentators place confessional power-sharing at the heart of their analysis of Lebanese politics. It is said to enable economic and political liberalism² but also to weaken the state, disabling any effective security or economic policies.³ The World Bank finds that militia leaders and oligarchs have “captured” Lebanon’s confessional post-war state under the veil of sectarianism.⁴ Several authors emphasize the continuity of crises over time. Gaspard, for instance, demonstrates the persistence of laissez faire economics creating recurring economic crises, while Dib narrates Lebanese history as a continuous interplay of “warlords and merchants”.⁵ Lebanon’s capitalism has always been prone to crises but the central symptom of the current crisis is the unprecedented level of government debt managed by finance ministry and central bank. Persistent sectarianism and state weakness alone simply cannot explain the specific nature of the current malaise. In this article I show how transformations of Lebanon’s role in the global and regional political economy helped reshape its class structure and state. I then propose a very schematic initial analysis of different social classes. A first section sets out Nasr’s analysis of the pre-war Lebanese crisis of capitalism. A second section explains changes in Lebanon’s position in the international political economy, and how this affected the Lebanese state and class structure during the civil war. The third section shows how these wartime shifts led to the integration of Lebanon’s post-war economy into Gulf rentierism through finance and real estate. Rentierism here refers to Gulf economic dependency on oil income, which in turn radiates out to the wider Arab world through government aid or corporate investment to non-oil Arab states such as Lebanon.⁶ A fourth section sets out a schematic class analysis, using recent studies of income and wealth inequality, poverty and deprivation. It benefits rentier capitalists at the top, while poverty and inequality remain rife. I argue that the cause of Lebanon’s current economic crisis lies not just in a “weak state” overwhelmed by sectarianism but in a fundamental shift in Lebanon’s role in the regional and global economy. The crisis produces a rentier capitalist class at the top that stretches beyond the country’s borders, a precarious middle class, and

persistent poverty. This class structure leaves the majority of Lebanese vulnerable to clientelism but the depth of the crisis is also starting to erode these mechanisms of sectarian discipline and control. A recent rise in economic protests mobilized not the very poorest but the precarious middle. The special nature of garbage as an indivisible public good led to widespread protests in the summer of 2015 when Beirut's municipal government failed to collect waste.

Civil war economy: Lebanon loses its intermediary role

The national pact of 1943 entrenched power sharing between Lebanon's sects. The unwritten agreement divided positions in Lebanon's state along confessional lines. The president always had to be a Maronite Christian, the prime minister a Sunni Muslim, and the speaker of parliament a Shia Muslim. Muslim representatives accepted the principle of Lebanese independence rather than unity with Syria, which was the preferred option among the majority of Lebanese Muslims. The Christian leaders promised not to accept Western intervention in Lebanon. The two main personalities who struck the agreement – Maronite Bechara el Khoury and Sunni Riad al Soh – were not only representing their communities but also the bourgeoisie of their confessional groups.⁷ Confessional peace and an independent Lebanese republic run along *laissez faire* lines were beneficial to merchants and financiers from all sects. While Christians tended to dominate trade with the West, Sunni merchants were dominant in trade with the Arab East. Lebanon came to occupy a unique role as intermediary between Europe and America on one hand, and Arab East on the other.⁸ Beirut attracted capital fleeing war or nationalization in Palestine, Syria, Egypt, and Iraq. Lebanon's "merchant republic" ran a *laissez faire* economy with minimal state interference and public services.⁹ Consociational power-sharing democracy and minimal public services meant voters had to rely on confessional politicians – *zu'ama* – to access education, health services, and jobs.¹⁰

Nasr's 1978 article showed that Lebanon's intermediary role led to a preponderance of banking and finance.¹¹ The collapse of Intrabank in 1966 led to a changing of the guard: Local financiers declined and Western capital stepped in to recycle "petrodollars" that were flowing through Beirut. Within Lebanon, banks preferred financing real estate over industry. Some key trading houses monopolized this sector. Agriculture came under the purview of big capitalist owners, causing a rural crisis and migration to the city. The expanding but "limited and crude" industrial sector was unable to absorb

the newcomers.¹² By the early 1970s, the crisis of Lebanese capitalism was not one of insufficient economic growth but entrenched structural inequality. This is an important point: Authors who dismiss the role of “economic factors” in the outbreak of the civil war point to strong growth induced by Lebanese petrodollar recycling.¹³ This downplays Lebanon’s long-term social crisis.

The social crisis spurred new popular movements. The build up to the Lebanese civil war is often narrated as a conflict of sectarian parties, stirred up by the struggle of the Palestinian national movement and Israel.¹⁴ The bigger picture was the rise of social protest. Popular movements were forming from the grassroots up, challenging the traditional sectarian leadership.¹⁵ Some of these movements were secular and non-sectarian, while others represented a mobilization of the confessional group outside the control of established *zu’ama*. This mobilization would have been impossible without the mass migration from rural areas to Beirut weakening patronage ties.¹⁶ Sectarianism overlay the differential integration into the urban labor market, with the bulk of migrants being Shia from South Lebanon. They lived amongst Palestinian refugees, who started arming themselves after the Arab defeat in the 1967 war. The crisis of Lebanese capitalism was thus not independent of sectarianism or international politics. It exacerbated those features.

Lebanon’s oligarchic rule provoked a reaction not just “from below” but also from military and technocratic elites that wanted to pursue statist economic policies akin to those of “developmental states” elsewhere in the developing world. After a brief episode of civil war in 1958, army general Fouad Chehab emerged as a compromise candidate for the presidency. He and his successor Charles Helou’s efforts at installing a more developmentalist state challenged the economic interests of Lebanon’s financial and merchant oligarchy. The introduction of planning and statistics underpinned an expansion of education and infrastructure provision. The general-turned-president Fouad Chehab built up the repressive muscle of the Lebanese state through the intelligence agencies. The most relevant innovation for the purposes of this article was the establishment of a central bank in 1964. It actively regulated finance, helped manage the Intrabank collapse of 1966, and encouraged the entry of Western banks into the Lebanese economy.¹⁷

When civil war broke out in 1975, foreign banks were looted. Most left Beirut and many remaining banks came to serve the militia economy. The civil war thus ended Lebanon’s role as financial intermediary between East and West. The war can be divided into two periods: resilience between

1975 and 1982, and collapse from 1982 to 1990. Resilience was primarily due to the international political economy.¹⁸ Outside militia funding stabilized the economy. Lebanese migration to the Gulf led to rising remittances and industrial exports. Emigration gave birth to a new diaspora bourgeoisie of Lebanese who became contractors in the Gulf during the oil boom.¹⁹ The breakdown of the state was uneven. The army fragmented but remained a significant actor. The government lost its main source of income from customs and tariffs when militias seized the ports.²⁰ However, the government continued to pay salaries and even engaged in some reconstruction. During one of the lulls of the civil war in 1976-1977 the President and former central bank governor Elias Sarkis established the Council for Development and Reconstruction (CDR) and endowed it with exceptional powers.²¹ Sarkis was a protégé of former President Fouad Chehab and acted in the tradition of the state developmentalism established by this predecessor. In this sense, the CDR was a “Chehabist” institution that came to play a central role in post-war reconstruction. After the Israeli invasion of 1982 it briefly looked like the civil war was coming to an end. Several Lebanese-born Gulf contractors bought up local banks and Rafiq Hariri made plans to rebuild central Beirut, which he was to realize in the 1990s.²² The war did not end. Syria rallied its local allies to oppose President Amin Gemayel who had signed a withdrawal agreement with Israel, which would have been a de-facto peace agreement between Lebanon and the Jewish state. The return to conflict in early 1984 eventually led to currency collapse. The pillars of resilience that had propped up the Lebanese economy were knocked over.²³ Much of foreign militia funding disappeared, the oil price collapse led to falling remittances and exports. The Lebanese economy was on its knees but currency collapse was also helped along by coordinated rounds of speculation.²⁴

The civil war after 1983 was a threefold struggle. The sectarian dimension concerned the renegotiation of the confessional power-sharing formula, which occurred at Ta’if. The second dimension was international. Syria struggled for dominance in Lebanon by excluding Israeli influence as well as any potential Lebanese opposition. Damascus largely achieved this goal. Major powers, including the United States and Saudi Arabia, accepted Syria’s dominant role in Lebanon.²⁵ Finally, the civil war was a struggle over the post-war economic order. President Gemayel’s (1982-1988) business ally Roger Tamraz was building a commercial empire in competition with some of the Gulf contractors.²⁶ Tamraz’ empire in turn failed in 1988 when Gemayel’s term ended and he could no longer protect the ventures. Various militia leaders were making money from trade in fuel and food, extortion, smuggling, and currency speculation.²⁷

Post-war rentierism

The post-war economic growth record was mixed. Annual real GDP growth averaged a strong 6.2 percent from 1992 to 1996 and an even stronger 9.5 percent from 2007 to 2010, but slumped to 2.3 percent from 1997 to 2006 and 1.9 percent from 2011 to 2017.²⁸ Real per capita GDP in US dollar terms increased by 47.2 percent between 1992 and 2010 but by 2017 it had declined by 18.1 percent due to lackluster growth and the influx of Syrian refugees. Since 1992 Lebanon avoided a return of currency crises. This apparent stability and the recurring albeit somewhat lackluster long-term growth hides structural problems. The most obvious and most worrying sign of this malaise is government debt at 153 percent of GDP in 2017, the third highest in the world after Greece and Japan.²⁹ Lebanon has been running persistent current account deficits which were in the double digits in 19 of the past 25 years.³⁰ Lebanon funds this deficit through the constant inflow of short term capital. Foreign direct investment is dependent on the Gulf and narrowly focused on real estate. Lebanon is overly dependent on remittances which stood at over 20 percent of GDP annually for most years during the 2000s. This represents yet another avenue of Gulf dependency as much of this diaspora is located in the Gulf. Lebanon's economic slowdown since 2011 is partly due to declining remittances at a "mere" 15.3 percent of GDP in 2017. These remittances are crucial to keep financing the government budget and current account deficits.³¹

Sectarian power-sharing is one the causes of the shortcomings of the post-war economy.³² Ta'if produced the mutual obstruction of the "troika" of president, prime minister, and speaker working at cross-purposes and vetoing each other while seeking to maximize their share of economic rents, thus reproducing the "weak state". Predation by Damascus regime figures further hurt the economy prior to the Syrian withdrawal of 2005. Lebanon's system of dividing the spoils among sectarian politicians is a key cause of Lebanon's crisis, but it is only one aspect of Lebanon's political economy. The central bank, which is probably the key institution of post-war capitalism in Lebanon, is hardly "weak".³³ The policies that caused debt and failing services are not solely due to Syrian predation. With Hariri, a representative of the new Gulf contractor bourgeoisie took charge of reconstruction. He turned Lebanon into an outlet of Gulf capital in finance and real estate.³⁴ Hariri's policies took account of the fact that Lebanon had lost its role as intermediary between East and West and was not going to regain it. Real estate and finance were the main draw for outside capital. In 1991 the Lebanese parliament passed a law that enabled the transfer of property rights from the several tens of thousands of individual owners in central Beirut to a single real estate developer dubbed Solidere.³⁵ Hariri had lobbied for the legislation. The high end luxury real estate in the new city

center created enormous rents for Solidere investors and for developers who had secured a plot in the area. The state played a central role by transferring and securing property rights to the private developer. The CDR, the very agency which had been founded as a highly autonomous state instrument of Chehabist technocrats in 1977, partnered with Solidere in developing central Beirut. Solidere was an example of neoliberal urbanism, where the state enables accumulation at the urban scale. Much of this accumulation was driven by Gulf capital, not least Hariri himself, who was a major shareholder in Solidere.³⁶ Central Beirut was symptomatic of Lebanon's luxury real estate boom but permissive regulatory policies fostered hundreds of "mini-Solideres" across Beirut, where high rise luxury apartment blocks were replacing Ottoman- or Mandate era villas.³⁷

Beirut's city center is the more visible sign of Lebanese malaise, but government debt is the time bomb that could blow up the Lebanese economy. The main debt creation engine was not the cost of reconstructing physical infrastructure but currency stabilization.³⁸ In order to avoid the crippling currency crises of the 1980s and early 1990s, the central bank pegged the Lebanese pound to the US dollar at LL1,500 in 1997. High interest rates were the main vehicle for managing the currency, especially on government debt. Gaspard argues that the state over-paid on this interest, leading Lebanon into a debt trap.³⁹ The beneficiaries were Lebanese commercial banks who snapped up treasury bills, and the depositors who were financing the banks' purchase of government debt. The system is reliant on a continuous inflow of capital from outside Lebanon to feed the deposit base. Two factors kept the merry-go-round going.⁴⁰ Firstly, most government debt is held by domestic banks rather than more fickle foreign investors.⁴¹ Banks and government are mutual hostages. The banks also know how to draw in deposits from the Lebanese diaspora. Secondly, investors perceive an "implicit guarantee" by donors.⁴² The 2002 Paris II conference stabilized the Lebanese economy through donor loans originating mainly in the Gulf. During the Israeli war on Lebanon in 2006 Saudi Arabia and Kuwait deposited a combined \$1.5 billion with the central bank to bolster the currency. Gulf support for Lebanon's dollar peg has helped Lebanon stay afloat.

Lebanon's economy thus revolves around rent-creation mechanisms such as government debt management and urban "reconstruction". Most ordinary Lebanese were unable to participate in these schemes.⁴³ Gulf contractors, the Lebanese diaspora – many of whom are in the Gulf – and the businessmen and warlords who benefited from the militia economy were able to earn most of the rent. Lebanon's economic elite is closely networked to, or congruent with, the political elite. The Hariri and Miqati family empires are only the most prominent examples. Jad Chaaban's research on

Lebanese banks illustrates the politicized nature of banking: 18 of the 20 major banks of 2014 had major shareholders linked to political elites and he attributes 43 percent of assets in the banking sector to political control.⁴⁴ In some ways this is another iteration of what Dib had referred to as the longstanding coalition of “warlords and merchants”, but the current situation and the nature of the current crisis differ from the political constellations of previous eras.⁴⁵ The importance of the Gulf and the diaspora, as well as the role of “strong” state agencies in stabilizing these schemes – not least the central bank – are novel aspects of Lebanon’s political economy.

The economic downturn since 2011 was largely caused by the Syrian conflict, including the influx of hundreds of thousands of refugees. It hit economic growth and has exacerbated pressures on public services but it did not cause Lebanon’s crisis of capitalism. About one million Syrians are registered as refugees with the UN Refugee Agency (UNHCR), with an unknown number of Syrians in the country who are not registered.⁴⁶ The negative and positive effects on “the economy” are borne by different groups.⁴⁷ Lebanon’s rentier capitalists suffer from a reduction in tourism and subsequent demand for real estate. This has dampened the appetite of Gulf investors and diaspora Lebanese to invest. Lebanese who were renting out accommodation or selling consumer goods or services to Syrians benefited from rising demand. Employers in such low wage sectors such as construction, agriculture or hospitality benefited from the influx of labor, not least because most Syrians are employed informally. Lebanese living in areas where Syrian refugees were fleeing to would see additional pressures on public services, which are anyhow provided insufficiently.⁴⁸ Unskilled workers would experience greater competition from Syrians. The economic interests of utilizing cheap Syrian labor have also influenced Lebanese refugee policy, such as non-encampment.⁴⁹ The influx of Syrians provides profit opportunities for retailers and landlords, while putting additional pressure on Lebanon’s poor and economically vulnerable.

The expansion of real estate and finance was driven by strong state institutions manned by Hariri-appointed technocrats.⁵⁰ There was a crucial difference in the way that Hariri and the pre-war bourgeoisie were building state institutions in Lebanon. While the former were protecting the laissez-faire “merchant republic” from the encroachment of the more developmentalist Chehabist state, Hariri technocrats repurposed the very artefacts of the Chehabist experiment for neoliberal policies in finance and urbanism. While Hariri strengthened what Bourdieu had called the “right hand” of state concerned with economic management – the central bank, the finance ministry – former militia leaders were capturing the left hand – public service ministries and agencies – as

patronage instruments.⁵¹ This included the Council for the South, the Ministry of the Displaced, the ministry of social affairs, the health ministry and others. This public sector growth was a natural development for a state that had been emasculated by civil war but jobs were often also a patronage resource of sectarian politicians.⁵² Politicians were channeling public services to their clientele. Chaaban and Salti have showed that the geographical distribution of government expenditures on education, health, and social welfare was not driven by need but matched the sectarian demographic composition of different localities.⁵³ The military and intelligence apparatus also expanded, especially while it enjoyed Syrian patronage before Damascus withdrew its troops in 2005.

Rentiers versus the rest

Several studies over the past twenty years have looked at Lebanese inequality in incomes and wealth, and at poverty or deprivation.⁵⁴ They come to similar conclusions: inequality is high and poverty and deprivation are persistent. The most comprehensive and recent analysis from Lydia Assouad finds that the top 10 percent of income earners accounted for 57.1 percent of income in 2014, while the bottom 50 percent accounted for 10.6 percent. In terms of wealth, she finds that the top 10 percent gather almost 70 percent of total personal wealth.⁵⁵ Various studies over the years found that slightly more than a quarter of Lebanese live in poverty or deprivation.⁵⁶ The tax system is hardly progressive.⁵⁷

As Traboulsi has pointed out, studies of income and poverty tell us little about class because “the organization of incomes into a pyramid takes place without examining the source of these incomes (i.e. labor, profit, interest, rent, etc.) and regardless of the economic sector in which they are earned, or the ownership of capital and the means and instruments of production.”⁵⁸ My analysis goes beyond arranging income in pyramids and tries to provide a very schematic “class analysis” in two ways. Firstly, I relate the incomes of Lebanon’s richest to the rent-creation mechanisms that I have set out in my previous analysis. Secondly, I look at the characteristics of households that are ranked as poor or deprived in the various studies and relate them to the types of wage- or non-wage labor they perform, and the sectors they work in. This analysis provides a “backdrop” – in Nasr’s terminology – to the recent rise in popular mobilization against the failure of public services, for higher wages, and a host of other social issues.

At the top of the pyramid are rentier capitalists. Government debt management is a key source of rent in the financial sector. Lebanese commercial banks are the main lender to the Lebanese government and central bank. Banking is highly concentrated: Citing data from 2014, Chaaban finds that the three banks with the greatest total consolidated assets hold 45 percent of the sector's total assets, while the ten leading banks hold almost 90 percent.⁵⁹ The second layer of beneficiaries are depositors who earn high interest rates. The IMF estimated that the largest 1 percent of deposit accounts hold half of total deposits, with the largest 0.1 percent holding 20 percent in 2015.⁶⁰ One IMF working paper noted that anecdotal evidence suggests the Lebanese diaspora is the largest group of depositors.⁶¹ Real estate is another large source of rents. Solidere is the biggest real estate project in Lebanon but similar mechanics can be observed across various areas of Beirut, where old Ottoman or Mandate era houses have to make way for luxury high risers. Fattouh noted that few Lebanese had the savings to participate in finance or real estate schemes.⁶² Wealth begets wealth through access to financial and real estate rent. Assouad finds that wealth is extremely concentrated. Using data from Forbes and Arabian business magazines, she estimates that Lebanese "billionaires' wealth represents 30 percent of total national income on average over 1990-2016, surpassing by far what we observe in other countries using the same data."⁶³ Forbes' most current ranking of billionaires suggests that the source of wealth of Lebanon's seven biggest tycoons lies in the Gulf: Four members of the Hariri family are listed to be worth a combined \$6.2 billion, while Taha and Najib Miqat together own \$5.5 billion.⁶⁴ Both families originally amassed their wealth through Gulf contracting and both had a family member assume the post of prime minister.⁶⁵ Only one Lebanese billionaire – Robert Mouawad at \$1.6 billion – does not trace the origin of his wealth to the Gulf. At the same time, Lebanon is a tough place for small entrepreneurs to become wealthy. Small and medium sized businesses are in a precarious position. Lebanon's low rank of 133 of 190 in the World Bank "Doing Business" index suggests that those businesses that do not enjoy close connections to the apex of the political pyramid face a lot of red tape.⁶⁶ Financing is difficult to come by from commercial banks, although central bank programs have made some more funding available.⁶⁷

Assouad does not measure poverty, but various studies of poverty or deprivation published between 2007 and 2015 put the number of poor or deprived Lebanese at between 20 and 27 percent.⁶⁸ The lower 50 percent of the income pyramid thus splits into half: those struggling to stay above the poverty line, and those below. What characteristics are associated with poverty and deprivation? I

rely on three studies on poverty or deprivation published by various Lebanese government and international development organizations between 2007 and 2015.⁶⁹ While they employ different concepts and measures of welfare – living standards, income, or expenditure – their results do point to the characteristics that make households vulnerable to deprivation or poverty.

Unsurprisingly, unemployment is associated with poverty.⁷⁰ Furthermore, salaried employment tends to keep Lebanese out of poverty, while most of Lebanon's poor were in non-salaried employment: either paid on a weekly, hourly or piece rate basis or were self-employed.⁷¹ In 2009, "monthly paid employees" accounted for only half of those in employment.⁷² The scarce but valuable good of salaried employment is thus a patronage resource for politicians who can dole out jobs in the public sector.⁷³ Those households where the head was employed in agriculture or construction saw the highest rates of extreme poverty, while public sector workers and those in services saw the lowest incidents of poverty.⁷⁴ It is precisely this relatively more secure segment of salaried employees and particularly public sector employees which has been the driver of renewed labor militancy since about 2012, a point that I will return to later. Widespread poverty among construction workers suggests that the rents earned in Lebanese real estate were based on the extreme exploitation of labor. Poverty and deprivation are also matters of geography.⁷⁵ Given the concentration of rents from real estate and finance in Beirut's banks, Solidere, and other high-end construction projects, it is hardly surprising that the capital had the lowest rates of poverty and deprivation in Lebanon in 2004. Mount Lebanon and Nabatieh had below-average poverty rates, while rates in the Bekaa and the South were above average.⁷⁶ The North had the highest rates. Those areas which rely most extensively on agriculture but see little trickle-down from Beirut's finance and real estate wealth are thus the poorest regions in Lebanon.

Much of the top ten percent of income earners in Lebanon can afford alternatives to the poor condition of public services such as health, education, water and electricity. Poorer Lebanese are more reliant on patronage resources doled out by politicians or confessional charities. Poverty and deprivation are associated with low educational achievement. Poverty is low among those who attended secondary school and very low among those with university education.⁷⁷ Education is the key to reproducing middle class existence and to economic security. The quality of schools varies. More than half of students were attending private fee-paying schools, with just less than a third going to public schools and 13 percent in private non-fee-paying schools in 2009-2010.⁷⁸ Confessional politicians or charities can therefore provide education as patronage resource, for

instance by providing school places in prestigious schools or by reducing fees. Schools catering mainly or exclusively to particular religious communities are a way of reproducing sectarian identities. 40.2 percent of university students were attending the public Lebanese University.⁷⁹ More prestigious but expensive English- or French-language universities such as the American University of Beirut (AUB) or St Joseph provide much enhanced job prospects. The quality of education thus depends on the ability to pay. This is how societal advantage becomes reproduced from one generation to another.

The top ten percent of income earners are also better able to cope with the inequalities of Lebanon's health system. 90 percent of hospital beds are in private institutions, while ambulatory care takes place mainly in private health centers and pharmacies.⁸⁰ Health insurance coverage is far from universal and does not cover all treatments. Only 46.2 percent of heads of household were insured in 2004.⁸¹ Most insured are in the National Social Security Fund (NSSF), which covers employees in the formal sector, followed by the army fund and some other public sector schemes. Again, we can see how government employment acts as a shield to the effects of poverty and deprivation. Very few are in private insurance. Health coverage is thus tied to regular employment, often in the public sector.⁸² While the ministry of health is mandated to pay for hospitalization of uninsured Lebanese, lack of clear rules and lack of capacity in the ministry provided scope for corruption and hospitals overcharging both the state and patients.⁸³ Building and running health centers is a form of "bricks and mortar clientelism" by politicians and confessional charities associated with politicians.⁸⁴

A World Bank survey published in 2009 found that, while connection to the public water system had improved, only about a quarter of connected households actually received water every day.⁸⁵ Lebanese do not trust the quality of water and only about half use it for drinking.⁸⁶ Households use bottled water or go to water trucks. Lebanese households spend more on those alternative water sources than on water from the tap.⁸⁷ High end apartment blocks often dig their own wells, circumventing public water supply and showing once again that Lebanon's wealthy elite is able to cope with failing public services. Intermittent supply and poor water quality impose considerable costs on households, especially the poorer ones, and represent a health risk. Verdeil finds that, given Lebanon's relatively abundant water supply for a Middle Eastern country, "the inadequacy of Beirut's drinking water supply exemplifies the persistence of public service dysfunction after twenty years of reconstruction".⁸⁸ Bearing in mind that physical infrastructure was a priority of post-war

reconstruction, the undersupply of sufficient drinking water is an indictment of the process. Eid Sabbagh finds that Lebanon's political elites are unable to address the water issue as it "acts following a logic of power reproduction centered on the control of financial resources, control over administrative bodies, and the division of territory."⁸⁹

Electricity production is inequitable. The one success of Lebanon's reconstruction in the sector was to add generator capacity in the 1990s but capacity now lags far behind demand. State-owned electricity company Electricité du Liban (EDL) never recovered the ability to collect all bills and much electricity is accessed through informal connections. Despite the technical capability to do so, Lebanese power stations never switched from the more expensive oil as a fuel to the cheaper gas. EDL does not produce enough electricity and it suffers from continuous financial deficits that the ministry of finance then has to pay for. Privatization plans became a tussle between politicians seeking to benefit investors, and others seeking to protect their clientele's interests in accessing electricity free of charge. The rolling power cuts with which EDL rations electricity are applied inequitably. Beirut experiences relatively shorter cuts while areas outside of the capital suffer extensive outages. The Lebanese resort to privately owned generators. World Bank data published in 2009 show that a third of all Lebanese electricity comes from private generators, 58 percent of households use some form of self-generated electricity, and that households spent \$330 million on privately generated electricity in 2008.⁹⁰ Most Lebanese are billed twice: By EDL and by a local private provider. Again, wealthier Lebanese find it easier to cope with the state's failure to provide electricity than poorer ones, and those outside of Beirut suffer more than those in the capital.

In the summer of 2015, Beirut experienced a severe trash crisis. Garbage collection had been privatized after the civil war and was no longer a municipal responsibility. In Beirut and Mount Lebanon, garbage collection was handled by Sukleen, a company run by a former business partner of Rafiq Hariri.⁹¹ Data cited by Abu Rish suggest that Sukleen was yet another rent-creation mechanism: The price it charged the Lebanese government was four times the global average.⁹² In 2015 Sukleen's contract ran out but Lebanon's confessional elites could not agree on a new rent-sharing formula. Furthermore, the Naameh site where much of Beirut's garbage had ended up was closed. It had far exceeded its capacity and local residents were protesting its continued use. The crisis is interesting because, unlike health, education, electricity, or water, there is no private alternative to waste collection. It is a public good that is not easily divided into, or provided as, a private good. It is thus not amenable to being used as a personalized patronage instrument. This is one important

reason why the 2015 “trash crisis” mobilized strong popular protests around the “You Stink” movement.⁹³

The crisis of Lebanese capitalism and social protest

The post-war economic model pits the rentiers against the rest. Hariri and his technocrats were the architects of the post-war economy. The other members of the political elite provided little fundamental opposition to Hariri’s neoliberal policies. They sought to extract a share of rents instead. Theirs was the logic of “muhasasa”, the division of spoils typical of post-war politics.⁹⁴ This did lead to a rise in rudimentary welfare state institutions run along clientelist lines by sectarian politicians. This form of welfare provision is costly and fails to address the pressing needs of the poorest. Cammett had referred to building health centers and schools in return for votes at election time as “bricks and mortar clientelism” of.⁹⁵ Nucho points out that this provision of infrastructure reproduces “everyday sectarianism”.⁹⁶ Salloukh, Barakat, Al-Habbal, Khattab, and Mikaelian have argued that sectarianism envelops the Lebanese population in a form of Foucauldian governmentality.⁹⁷ Clientelism is a powerful structural force to keep the Lebanese in their sectarian place. There is, however, growing evidence that such control is not absolute and is eroding as the crisis of Lebanese capitalism deepens the country’s social crisis and elicits protests.

The polarization of Lebanese society has contributed to a rise in contentious politics, including street protests, strikes, and electoral contestation from non-sectarian newcomers. Notably, the working poor who are concentrated in agriculture and construction generally fail to mobilize.⁹⁸ Political elites had managed to undercut the independence of the main trade union confederation at its leadership election in 1997.⁹⁹ It was only fifteen years later that more independent trade unions were stepping out of the shadow of the emasculated umbrella group. Public sector employees came together as the Union Coordination Committee (UCC) to demand wage adjustment in a series of strikes and protests between 2012 and 2015. Bou Khater explains the UCC’s success with reference to the large number of workers it represented, the fact that the state as an employer was its main target, and its democratic structures.¹⁰⁰ On the one hand, public sector employment is tainted with clientelism. On the other hand it is a major site of labor mobilization that confronts the economic inequality that sectarian elites seek to preserve. The Janus-faced nature of the public sector validates the recent

spike in studies which take the Lebanese state seriously and suggests more of such research is needed.¹⁰¹

Among the most high profile instances of protest were the demonstrations against the failure to collect garbage in Beirut in the summer of 2015. On 29 August tens of thousands congregated in the streets of central Beirut putting forward a coherent set of demands: the resignation of the environment minister, the resignation of those in the security apparatus and the cabinet found responsible for previous police violence against demonstrators, and a long term environmentally sustainable solution to the garbage crisis.¹⁰² These minimal goals hid a wider divergence of views, including a notable segment of the protestors who were adopting the slogans of “Arab spring” protestors: “the people want the fall of the regime”. This begged the question what the “regime” was. Protestors also chanted that “all means all”, putting blame on political movements and factions across the whole political spectrum, including Michel Aoun’s Free Patriotic Movement and Hizballah, which had themselves often posed as outsiders challenging a failing state. A previous attempt at building a “non-sectarian” movement in 2011 had failed partly because the terms of what “the regime” was had been so vague as to allow partisans of sectarian parties to join the protest, rendering it meaningless.¹⁰³ Whereas Ben Ali had personified the regime in Tunisia, and Mubarak in Egypt, targeting individual Lebanese politicians for accountability always carried the stigma of sectarian motivation. Since ministers represented “their” confessional group and party, holding a minister to account for her or his failings could be interpreted as an attack on the standing of that group. This mind set makes ministerial accountability nigh impossible. The garbage protest thus brought about an important change in tone. Politicians reacted with repression, mobilizing the security forces against protestors, rounding up perceived ringleaders, and making use of their formidable party- and media machinery to delegitimize the protests. The crackdown once again belies the notion of a Lebanese “weak state”. Faced with a protest movement that formulated a fundamental challenge to the economic and political control of Lebanon’s sectarian elite cartel, these leaders launched the state’s repressive capabilities.¹⁰⁴ The garbage protest brought forth electoral alliances such as “Beirut Madinati” run by professionals and activists who seek to challenge the sectarian logic of Lebanese policy making but thus far fail to mobilize the electorate effectively.¹⁰⁵ While elections still churn out reliable majorities for political elites, elite control through clientelism and sectarianism is weakening.

Conclusions

The weakness of the Lebanese state and its capture by self-serving elites is undeniable but it is not the sole cause of the current crisis. Syrian refugees exacerbated the crisis but did not cause it. A key factor is the long-term shift in Lebanon's role in the regional and global economies: From intermediary between Arab East and the West in the pre-war period, to the integration into circuits of Gulf rentierism in the post-war period. The policies that paved the way to this dependency were put in place by Lebanese-born Saudi contractor Rafiq Hariri. This reshaped Lebanon's class structure. The pre-war bourgeoisie receded, while billionaires who accumulated their wealth in the Gulf are now at its apex. Moreover, the country is dependent on remittances from the large Lebanese diaspora, a large and wealthy section of which is based in the Gulf. Gulf governments stepped in with financial aid at various points when Lebanon's currency peg came under pressure, most dramatically during the Israeli war in 2006. The cause of Lebanon's crisis of capitalism is thus not simply the recurring problem of sectarian society overwhelming a weak state, but a profound change in Lebanon's international political economy. Nor was the state universally weak: Those sections of the state concerned with creating and stabilizing rents in finance and real estate are strong, especially the central bank.¹⁰⁶ Finance and real estate boosted the wealth of a rentier capitalist class that stretches beyond Lebanon's borders. A quarter of Lebanese citizens, meanwhile, are suffering poverty and deprivation, with Syrian and Palestinian refugees adding to the number of poor. Waged labor allows Lebanese to escape the worst ravages of poverty but leaves even public sector workers in a precarious financial situation. Insufficient public services in education, health, water, and electricity are escapable problems for the wealthy. For politicians they are also patronage resources with which to control the poorer sections of society.

What remains constant across the capitalist crises of the 1970s and the current one is the unwillingness and inability of Lebanon's political elite to resolve it and create a sustainable and equitable alternative. The country's only hope appears to be contention "from below". Since Lebanese capitalism and sectarianism are deeply intertwined, this countermovement must go beyond sectarian divisions. The precedent of the 1970s shows that popular movements can slip into sectarianism and violence. The current crisis of Lebanese capitalism is in some ways less dangerous than that of the 1970s. Firstly, the depth of deprivation and poverty were greater in the 1970s. Secondly, the anti-status quo forces in Lebanon could team up with armed Palestinian factions. Syrian refugees provide no scope for similar military or ideological alliances. There is one way, however, in which the current crisis is more dangerous than in the 1970: The civil war in 1975 broke

out despite strong economic growth, while the current crisis may trigger a currency collapse. This would result in a sudden erosion of living standards that could in turn lead to a severe political shock. Several recent studies have suggested that the end of the road may be nigh for Lebanon's unsustainable currency peg.¹⁰⁷ The sheer scale of the underlying structural problem, the Syrian war and refugee crisis, and the reduction in remittances all point to a decline in capital inflows from abroad. Gulf support for the currency peg has grown more uncertain.¹⁰⁸ While many of the top depositors would be able to salvage their capital – they are likely to be the first to move their capital out and thus precipitate a crisis – living standards at the opposite end of the social spectrum would plummet. Many of those whose salaried employment – often in the public sector – protects them from the very worst deprivation would immediately slip below the poverty line. The political effects of such a shock would be hard to predict.

¹ Salim Nasr, "Backdrop to Civil War: The Crisis of Lebanese Capitalism", *MERIP Reports* 73 (1978): 3-13.

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¹⁴ El-Khazen, *Breakdown of the State*.

¹⁵ Lea Bou Khater, *Labour relations in Lebanon: Trials and tribulations of the labour movement* (PhD Dissertation, SOAS, University of London, 2017), 170-174; Fawwaz Traboulsi, *A History of Modern Lebanon*, (London: Pluto, 2007).

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